

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE**

AMPEX CORPORATION,

Plaintiff,

V.

C.A. No. 04-1373-KAJ

EASTMAN KODAK COMPANY,
ALTEK CORPORATION and CHINON
INDUSTRIES, INC.,

Defendants.

**APPENDIX TO DEFENDANTS' REPLY BRIEF
IN FURTHER SUPPORT OF THEIR MOTION TO BIFURCATE
AND MOTION FOR PROTECTIVE ORDER**

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DUTTON ASSOCIATES

INDEPENDENT RESEARCH

RESEARCH REPORT

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Ampex Corporation

January 19, 2005

Summary Data		Financial Data Year Ending December 31				
Industry:	Communications Equipment	Year	EPS	P/E	REVS	PSR
Recent Price:	\$47.45	2001 A	\$ (7.58)	---	\$ 46.0	3.8 x
52-Week Price Range:	\$0.59 - \$50.75	2002 A	\$ (0.45)	---	\$ 27.0	6.5 x
Target Price (12 months):	\$77.28	2003 A	\$ 5.52	8.6 x	\$ 43.4	4.0 x
Avg. Daily Vol. (30 day):	151,700	2004 E	\$ 13.22	3.6 x	\$ 103.7	1.7 x

Balance Sheet Data 9/30/04 (mil)		Ownership and Valuation		Current Rating History	
Cash Equivalent:	\$ 14.6	Shares Outstanding (mil):	3.7	Date Assigned:	1/19/05
Working Capital:	\$ 11.7	Inside Ownership:	15%	Price at Rating:	\$ 47.45
Long-Term Liabilities:	\$ 153.2	Institutional Ownership:	10%	Original Price Target:	\$ 77.28
Shareholders' Equity:	\$ (139.7)	Equity Market Value (mil):	\$ 175.6	Time Frame:	12 months

Initial Report

Rating: Strong Buy

We initiated coverage of Ampex Corporation (Ampex) with a research note and a Buy rating on December 2, 2004 when the stock price was \$12.45. Since then the stock has moved up 281% to \$47.45. Despite this strength, based on the more complete valuation analysis that we provide in this initial report, we are upgrading our rating to Strong Buy.

Rationale for Buy Rating

- Ampex has an active, aggressive, and currently successful program of licensing its intellectual property.
- Ampex announced after the end of the third quarter 2004 that Canon Inc. (NYSE: CAJ - \$52.75) and Sanyo Electric Co. Ltd. (NasdaqSC: SANY - \$17.60) entered into separate license agreements for the use of Ampex's patents in the manufacture and sale of digital still cameras. The Sanyo agreement settled outstanding litigation and also provides use of Ampex's patents in cellular telephones. Ampex will receive payments of approximately \$11.6 million representing royalties on shipments made prior to July 1, 2004, and will receive running royalties in future periods based on sales of products that utilize its patented digital still camera technology. In addition Ampex will also receive a negotiated prepayment of \$13.5 million from one of the licensees with respect to royalties due on sales in the period from July 2004 through March 2006. From these two license agreements, Ampex will receive payments of approximately \$25.1 million in the fourth quarter 2004.
- Ampex announced on November 29, 2004, the settlement of patent litigation with Sony Corporation (NYSE: SNE-\$39.30) relating to patent litigation that Ampex initiated in July 2004 against Sony in the International Trade Commission (ITC) and the Federal District Court for the District of Delaware relating to digital still cameras manufactured and sold by Sony. Under the terms of the settlement, for a license fee of \$40.0 million, Sony will be licensed under several Ampex patents to manufacture and sell various products, including digital video tape recorders, digital still cameras, and camera-equipped cellular phones.
- Ampex began litigation against Eastman Kodak (NYSE: EK - \$31.73) in October 2004 in the ITC and the Federal District Court for the District of Delaware for Kodak's unauthorized use of an Ampex patent in the manufacture and sale of digital still cameras. Ampex is in discussion with a number of other manufacturers of digital still

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cameras and expects to announce additional agreements within 90 days. However, Ampex may institute additional litigation to enforce its patents if it is not able to conclude licenses on acceptable terms.

- Ampex's balance sheet as of September 30, 2004, has \$14.6 million in cash and short-term investments, or \$4.00 per share in cash. Ampex expects to receive \$65.0 million, or approximately \$18.00 per share from Canon, Sanyo, and Sony in the fourth quarter. The liability side of the balance was improved by the \$60.2 million reduction of debt announced on December 17, 2004.
- Ampex announced on December 17, 2004, that it had redeemed all of its outstanding 20% Senior Discount Notes due January 2006 with an accreted value of \$10.2 million. Ampex also gave notice to the trustee of its 12% Senior Notes due August 2008 of its intention to redeem \$50.0 million of the Senior Notes at the end of December 2004. After the redemption, Ampex will have approximately \$15.6 million outstanding of the 12% Senior Notes. This \$60.2 million reduction of debt will reduce interest expense by approximately \$8 million annually, or \$2.07 per diluted share.
- Ampex's patent portfolio of over 600 patents receives no recognition on its balance sheet.
- Ampex's profitable wholly owned subsidiary, Ampex Data Systems Corporation (Data Systems), develops and manufactures high-performance mass data storage systems, and instrumentation recorders. New disk and solid-state based recorders have recently been introduced, which are intended to replace tape-based products used by the military. Data Systems patents are also available to be licensed by Ampex.
- Ampex's potential for further patent settlements was acknowledged by investors as evidenced by the recent stock move to a high of \$50.75. The stock subsequently pulled back and we believe that, at the current level, these shares could provide investors with above average capital gain potential with limited downside risk.

Company Profile

Ampex Corporation, headquartered in Redwood City, California, operates two core businesses:

1) Licensing of intellectual property, and 2) and developing and manufacturing high-performance mass data storage systems, and instrumentation recorders through its subsidiary, Data Systems.

1) Licensing of intellectual property:

Ampex currently generates a substantial amount of its revenues and cash flow from the worldwide licensing of its patent portfolio primarily to manufacturers of digital consumer products. Ampex's intellectual property business segment generates revenue from its Patent Licensing Program that is currently focused on creating settlement fees and/or licensing revenues related to four key patent groups: a) Rapid image retrieval and display, b) Image data shuffling, c) Feed forward quantization, and d) High speed image decoding. Patents covering these areas expire at various dates through 2014.

Ampex recorded royalty revenue of \$32.7 million from licensing agreements of \$27.8 million for the years 2001 to 2003 and \$4.9 million for the nine months ended 9/30/04. Ampex expects to receive \$65.0 million in the final quarter of 2004 from the recent licensing by Canon, Sanyo and Sony. These licensing agreements primarily cover all products manufactured by the licensees through April 2006.

2) Developing and manufacturing high-performance mass data storage systems, and instrumentation recorders.

Data Systems designs, manufactures and services storage products that have very large capacities and fast data transfer rates. These products are used principally in digital recording, archiving, and rapid restore/backup applications and are mostly sold to the Department of Defense for intelligence purposes. Data Systems recorded revenues of approximately \$100.0 million for the year's 2001 to 2003 and \$22.3 million for the first nine months of 2004.

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Governance

Edward J. Bramson, Chairman of the Board, has been an officer and director of Ampex since 1987. Since January 1991, Mr. Bramson has been Chief Executive Officer of Ampex.

Craig L. McKibben, Vice President, Chief Financial Officer and Treasurer of Ampex, has been an officer and a director of Ampex since 1989. Mr. McKibben is a Certified Public Accountant and from 1983 to 1989, he was a partner at the independent public accounting firm of Coopers & Lybrand L.L.P., a predecessor of PricewaterhouseCoopers LLP.

Robert L. Atchison, President of Data Systems and Vice President of Ampex, has been responsible for all operating activities since January 1994. He was responsible from April 1991 to January 1994, for engineering and manufacturing for Data Systems.

Joel D. Talcott, Vice President and Secretary, has held these positions since 1987. He has served as General Counsel since January 1996. He is also responsible for the patent licensing activities (having served as Patent Counsel from 1991 to 1987), and has supervisory responsibility for investor relations and corporate communications functions.

History

It is necessary to understand what transpired in the past for Ampex to arrive at its present financial situation. While some of this history is "ancient", it is necessary to explain the high debt and high debt-to-equity ratio. This following short history of Ampex is presented as an abbreviated time line. In the past, Ampex was most successful in inventing, designing and marketing technical expertise products that included electronic storage, processing and retrieval of digital images. Ampex was the leader in this market. Ampex went through some difficult financial times; however, they have successfully put the past behind them and the present is quite positive.

- Ampex Electric and Manufacturing Company was founded in 1944 and incorporated as Ampex Corporation in Delaware in January 1992. The Company initially manufactured audio recorders. An Ampex Model 200 was used for the first-ever tape-delay radio broadcast of The Bing Crosby Show in 1948.
- Allied Signal purchased Ampex in 1982 and in 1987 there was a leveraged buyout that resulted in a high debt and high debt to equity ratio.
- Ampex received numerous Emmy Awards for its video tape recorder products. Ampex developed and manufactured instrumentation recorders for the Navy, NASA, and other branches of the U.S. armed forces. It invented, developed, and marketed the technology for video cam recorders and players.
- Ampex became known as the leader in technical expertise in electronic storage, processing and retrieval of digital images. Many successful products were created that included the technology for high-quality electronic graphics used in video games, technology for digital special effects, technology for digital recording, digital video tape recorders, high-performance computer mass data storage systems, digital data/instrumentation recorders, double density data storage products and numerous other high technology digital recording and data storage products.
- Ampex incurred substantial net losses in each of the years 1990 to 1993, primarily in its professional television products business. Consequently a significant restructuring of its business operations was undertaken in 1993. The restructuring involved changes in manufacturing, distribution and administration to reduce fixed costs, withdrawal from or curtailment of a number of unprofitable product lines, and the write-off of goodwill and other intangible assets associated with its television products business.
- Along the way to technical excellence and high revenue numbers, Ampex employment head count grew to approximately 7,000, which is the root of its unfunded pension liabilities.

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- Due to the substantial restructuring charges and operating losses, including a \$230.5 million charge in 1993, Ampex had a stockholders' deficit of \$100.2 million as of March 31, 1996. Because of its decision to narrow its product lines, total sales declined significantly in comparison to prior periods.
- Ampex sponsors a defined benefit pension plan for its employees and retirees as well as that of Media, a former subsidiary. Ampex has recorded a cumulative minimum pension liability for unfunded pension plans of \$72.7 million that represented the excess of unfunded accumulated benefit obligations over previously recorded pension cost liabilities at December 31, 2003. To the extent that these additional liabilities exceed related unrecognized prior service cost and net transition obligations, the increase or decrease in liabilities was charged directly to stockholders' deficit. Ampex also has recorded unfunded pension liabilities for closed foreign subsidiaries. The expected future benefit payments by Ampex are as follows:

Table 1. U.S. Pension Plan Contributions Payable

Year	Amount
2005	\$ 4,630,000
2006	11,033,000
2007	11,206,000
2008	7,997,000
2009-2013	10,165,000
Total	\$ 45,031,000

Source: Ampex Corp. SEC 10K Filing

- Write-offs of goodwill in 1993, losses in 1999 and 2000 from an Internet video venture, and the unfunded pension situation have resulted in a sizeable equity deficit. For 2003, stockholders' deficit was charged \$8.3 million; for 2002, \$26.2 million; and for 2001, \$20.7 million. The stockholders' deficit at September 30, 2004, was \$139.7 million. As of September 30, 2004, Ampex had approximately \$89.6 million of total debt outstanding, which includes approximately \$66.6 million of 12% Senior Notes due 2008, \$9.8 million of a 20% Senior Discount Notes due 2006, and \$13.2 million of Hillside Notes incurred in connection with pension contributions advanced by Hillside. The indebtedness is secured by liens on a substantial portion of assets, including certain securities and their future royalty receipts. The loans contain a covenant that was approved in March 2004 when Ampex received consent from the holders of their senior debt securities to: 1) extend the maturity date of the Senior Discount Notes from January 5, 2005, to January 5, 2006, and 2) extend the measurement date from December 31, 2004, to December 31, 2006, by which Ampex is required to generate at least \$30 million of available cash flow during the five-year period ending December 31, 2006.
- The good news is Ampex has satisfied debt covenant with the cash receipt from royalties of at least \$65.0 million in the fourth quarter of 2004 and the pay-down of debt. Further, Ampex announced on December 17, 2004, that it had redeemed all of its outstanding 20% Senior Discount Notes due January 2006 with an accreted value of \$10.2 million. Ampex also gave notice to the trustee of its 12% Senior Notes due August 2008 of their intention to redeem \$50.0 million of the Senior Notes at the end of December 2004. After the redemption, Ampex will have approximately \$15.6 million outstanding of the 12% Senior Notes. This \$60.2 million reduction of debt will reduce interest expense by approximately \$8 million annually, or \$2.07 per diluted share.
- Ampex has 3.7 million shares outstanding today and has issued stock options covering 300,000 additional shares. On June 12, 2003, Ampex's Class A Common Stock underwent a one-for-twenty reverse split.

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Current Businesses

Ampex Data Systems

Data Systems was founded in 1944 and has over 60 years experience of data storage experience. Data Systems is focused on applications that demand fast performance, large capacity and high reliability, mainly high-performance mass data storage systems, instrumentation recorders and professional video products. Data Systems has been awarded thousands of patents for innovations used in VCRs, camcorders, CD-ROMS, hard disk drives, image processors, and tape cartridges. Data Systems is self-sufficient in the manufacturing of key technologies that include scanners, heads, channel electronics, servos, digital signal processing, disk development, solid state memory device, quality manufacturing, software development, and systems integration. Data Systems' newest generation of 19-mm scanning digital tape drives and robotic libraries was developed for image, telecommunications and mass data storage applications. Data Systems incorporates this technology in the design and manufacture of very high performance tape-based storage products, principally for digital recording, archiving and rapid restore/backup applications. They have also leveraged their investment in technology through licensing of their patents in this division through their corporate licensing division that licenses their patents to manufacturers of consumer electronics products.

Data Systems' products are dependent upon continued U.S. government expenditures on intelligence and defense programs. Although several intelligence programs have received government funding which has led to increased sales by Data Systems, there is no assurance that sales of new systems will continue at these levels. If sales of new systems decline in the future, they may be increasingly dependent upon revenues from the sale of spare parts, service and tape.

Data Systems products are used by the military to record satellite data and data in ships and aircraft to capture, record and archive data to provide intelligence to different agencies. The technology has evolved from data on tape to solid-state technology. Due to the different environments, the products must be rugged to withstand heat, turbulent air and major vibrations. Size also is an important factor and over the years, Data Systems' products have set the standards for size, ruggedness, and solid-state technology.

Data Systems' primary competition comes from other companies that also depend on government contracts for a major portion of their sales and include Calcuex (private company), L-3 Communications Corporation (NYSE: LLL - \$70.92), and Sypris Solutions, Inc., (NasdaqNM: SYPR - \$11.78). The number of competitors in this market has decreased in recent years as the level of government spending has declined. However, Data Systems' products are state-of-the-art and they usually win the contract when involved in competitive bidding at the Department of Defense. In the mass data storage market, Data Systems competes with a number of well-established competitors such as IBM Corporation (NYSE: IBM - \$94.90), Storage Technology Corporation (NYSE: STK - \$33.13), Sony Corporation, and Advanced Digital Information Corp. (NasdaqNM: ADIC - \$10.13), as well as smaller companies. In addition, other manufacturers of scanning video recorders may seek to enter the mass data storage market in competition with Data Systems.

Data Systems Financial Results

Table 2. Ampex Data Systems Financials

(in thousands)	Nine Months 9/30/04	Nine Months 9/30/03	Year ended 12/31/03	Year ended 12/31/02	Year ended 12/31/01
Product revenue	\$ 15,767	\$ 17,950	\$ 23,972	\$ 24,477	\$ 27,719
Service revenue	6,496	7,049	9,333	8,543	6,245
Total product & service revenue	\$ 22,263	\$ 24,999	\$ 33,305	\$ 33,020	\$ 33,964
Cost of product & service revenue	12,297	13,087	17,279	20,201	24,451
Gross Profit	\$ 9,966	\$ 11,912	\$ 16,026	\$ 12,819	\$ 9,513
Gross Margins	45%	48%	48%	39%	28%
Operating Income (loss)	\$ 3,087	\$ 4,916	\$ 6,542	\$ 4,278	\$ (5,350)

Source: Ampex Corp. SEC 10Q Filing

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Data Systems' financial results reveal a relatively flat revenue picture for the three years 2001 to 2003. For the nine months of 2004, the revenues decreased approximately 10% due to anticipated new product offerings in early 2005.

- Ampex Data Systems product and service revenues decreased slightly in 2002 to \$33.0 million from \$34.0 million in 2001, and increased slightly in 2003 to \$33.3 million from \$33.0 million in 2002. For the nine months of 2004, product & service revenues decreased 10.8% to \$22.3 million from \$25.0 million in the year-earlier period.
- Cost of product and service revenue decreased 17.4% to \$20.2 million in 2002 from \$24.5 million in 2001, and decreased 14.5% from \$20.2 million in 2003 to \$17.3 million in 2002. For the nine months of 2004, cost of product & service revenue was relatively flat at \$12.3 million compared to \$13.1 million in the nine months 2003.
- Gross profit increased 34.7% to \$12.8 million in 2002 compared to \$9.5 million in 2001, and increased 25.0% in 2003 to \$16.0 million compared to \$12.8 million in 2002. For the nine months 2004, gross profit decreased to \$10.0 million from \$12.0 in the nine months 2003.
- Gross margins increased to 39% in 2002 compared to 28% in 2001, increased to 48% in 2003 compared to 2002, and decreased slightly to 45% in nine months of 2004 from 48% in nine months 2003.
- Operating income increased to \$4.3 million in 2002 compared to a loss in 2001, increased to \$6.5 million in 2003 compared to 2003 and decreased to \$3.0 million in nine months of 2004 compared to nine months of 2003. Data Systems earns between \$3.0 million and \$5.0 million, based on revenues realized. New products to be introduced in 2005 could result in increased profitability.

Data Systems' revenues have been relatively flat over the past three and a half years; however the increased gross margins have provided positive cash flow that has allowed Ampex to pursue its licensing of intellectual property program.

Licensing of Intellectual Property

This business segment is currently the strongest segment and holds the greatest potential for major revenue increases. Ampex has licensed its electronic video technology for consumer products since the 1960s, but Ampex only began to concentrate on licensing its patents covering digital video technology in the late 1990s. The average annual royalty license income from 1990 to 2000 was approximately \$16.0 million. Their corporate licensing division was adversely affected in 2002 when compared to 2001 by the expiration of certain analog video tape recorder patents and the expiration of a licensing agreement covering other patents. As a result, royalty license income declined from \$12 million in 2001 to \$4 million in 2002. The royalty license income was \$10.1 million in 2003 compared to \$4 million in 2002 as a result of the completion of two license agreements authorizing Matsushita (NYSE: MC - \$15.36) and JVC the use of Ampex's patents in the manufacture of video tape recorders, including digital camcorders. Industry sources indicate that Matsushita and JVC account for 25% market share of the digital camcorder market. License agreements with Canon Inc. and Sanyo Electric Co. Ltd. for \$25.1 million covered digital still cameras and camera equipped cellular phones. The Sony agreement in the fourth quarter also covers camcorders. Sony is believed to account for 50% of the camcorder market.

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The Basics of Patent Infringement

A Short Primer on Patent Infringement

The word "infringement" means an encroachment upon the domain belonging to a patentee that is described by the claims of her/his patent. If a patent is analogized to real property, the claims correspond to the boundary recited in the deed. Invasion of the boundary of a landowner's real estate is called trespass, while invasion of a patentee's claims is called infringement. Both are civil wrongs or "torts." Unlike a trespass, patent infringement is a statutory wrong and is governed by federal law. 35 U.S.C. 271 defines infringement as "whoever without authority makes, uses, or sells any patented invention, within the United States during the term of the patent therefore, infringes the patent."

A determination of patent infringement involves a two-step process. First, the claims are analyzed by studying all of the relevant patent documents. Second, the claims must "read on" the accused device or process. This merely means that the device or process is examined to see if it is substantially described by the claims; in other words, the claims are tested to see whether they describe the accused infringement.

Infringement can be direct, indirect, or contributory. Anyone who makes, uses, or sells the patented invention is a direct infringer. If a person actively encourages another to make, use, or sell the invention, the person so inducing is liable for indirect infringement. Contributory infringement can be committed by knowingly selling or supplying an item for which the only use is in connection with a patented invention. Good faith or ignorance is no defense for direct infringement, but it can be for indirect or contributory infringement.

The remedies for infringement consist of: injunctive relief, damages (including treble damages for willful infringement), attorneys' fees in some cases, and court costs.

Source: http://inventors.about.com/library/bl/toc/bl_patent-infringement.htm

The various types of patent infringement are set forth in the 35 United States Code Section 271 (35 USC 271). That portion of the patent statute sets forth three types of literal infringement, which are: a) direct infringement, 35 USC 271, b) inducing infringement, 35 USC 271, and c) contributory infringement, 35 USC 271.

Direct infringement is the making, using, offering to sell or the sale of any patented invention within the United States, or importation of a patented invention into the United States. Inducing infringement involves the active inducement (encouragement) of infringement of a patent by others. Contributory infringement involves the sale or importation of, among other things, a material used in a patented process, or a component of a patented composition, where the material or component is a significant part of the invention, and is especially made or adapted for use in the infringement of the patent.

The damages awarded to a patent owner against an infringer can be very large. In the camera industry, Polaroid won a major patent infringement action against Eastman Kodak and collected almost \$1 billion in damages in 1985. In another unrelated case, Minolta (now Konica Minolta Holdings: Pink Sheets: KNCAF - \$12.64) was sued by Honeywell International (NYSE: HON - \$35.85) for patent infringement and Honeywell won a judgment of almost \$200 million in 1985. Ampex began litigation against Eastman Kodak in October 2004 in the ITC and in the Federal District Court for the District of Delaware for Kodak's unauthorized use of an Ampex patent in the sale of digital still cameras.

It is important that investors understand the strategy that Ampex has undertaken in its patent litigation. Ampex not only is suing Eastman Kodak in the Federal District Court for the District of Delaware, it has filed patent infringement proceedings with the ITC. Once the ITC has ruled that a patent is valid, the U.S. Customs agency stops the infringing invention at the port of entry. Eastman Kodak accounts for 20% of the digital still camera market and, with the three license agreements already settled and announced, a similar settlement with Eastman Kodak would add to Ampex's good

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fortunes. One can see the leverage inherent in dealing with the ITC; companies such as Eastman Kodak that manufacture product offshore would, if the ITC rules that the patent is valid, have their product stopped at port of entries across the U.S. by Custom Agents.

Description and Mission of The U. S. International Trade Commission

The U.S. International Trade Commission is an independent, nonpartisan, quasi-judicial federal agency that provides trade expertise to both the legislative and executive branches of government, determines the impact of imports on U.S. industries, and directs actions against certain unfair trade practices, such as patent, trademark, and copyright infringement.

The mission of the Commission is to: (1) administer U.S. trade remedy laws within its mandate in a fair and objective manner; (2) provide the President, USTR, and Congress with independent, quality analysis, information, and support on matters of tariffs and international trade and competitiveness; and (3) maintain the Harmonized Tariff Schedule of the United States.

In so doing, the Commission serves the public by implementing U.S. law and contributing to the development and implementation of sound and informed U.S. trade policy.

The ITC's five operations are:

- *Import Injury Investigations*
- *Intellectual Property-Based Investigations*
- *Research Program*
- *Trade Information Services*
- *Trade Policy Support*

Intellectual property infringement and other unfair acts

Section 337 investigations conducted by the U.S. International Trade Commission most often involve claims regarding intellectual property rights, including allegations of patent infringement and trademark infringement by imported goods. Both utility and design patents, as well as registered and common law trademarks, may be asserted in these investigations. Other forms of unfair competition involving imported products, such as infringement of registered copyrights, mask works or boat hull designs, misappropriation of trade secrets or trade dress, passing off, and false advertising, may also be asserted. Additionally, antitrust claims relating to imported goods may be asserted. The primary remedy available in Section 337 investigations is an exclusion order that directs Customs to stop infringing imports from entering the United States. In addition, the Commission may issue cease and desist orders against named importers and other persons engaged in unfair acts that violate Section 337. Expedited relief in the form of temporary exclusion orders and temporary cease and desist orders may also be available in certain exceptional circumstances. Section 337 investigations, which are conducted pursuant to 19 U.S.C. § 1337 and the Administrative Procedure Act, include trial proceedings before administrative law judges and review by the Commission.

Source: http://www.usitc.gov/ext_relations/about_itc/index.htm

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In review, the status in 2004 of Ampex's licensing of its intellectual property:

1. Licensed Canon, Sanyo and Sony for the use of Ampex's patented technology in the manufacture and sale of digital camcorders, digital still cameras and camera-equipped cellular telephones for total royalty fees of \$65.1 million, which cover product shipments through April 2006.
2. Began litigation against Eastman Kodak in October 2004 in the ITC and in the Federal District Court for the District of Delaware for Kodak's unauthorized use of an Ampex patent in the sale of digital still cameras. Ampex settled similar litigation with Sanyo and Sony earlier in 2004.
3. Ampex has offered to license the other major manufacturers of digital still cameras and cellular phones with digital image storage and retrieval capabilities and expects to announce additional license agreements during the next 90 days.

The Future of Intellectual Property

The resolution of the Eastman Kodak patent litigation is an educated guess on our part; however, since three major manufacturers of digital still cameras have been granted licenses, we believe this points towards a possible license agreement with Eastman Kodak.

We present the following data as a guide to possibilities of future royalty receipts from the infringement action of the digital still camera patents, digital video cam recorder, digital versatile disk recorders, and digital camera phones.

Table 3. Estimated Worldwide Market Size by Category
(US\$ in millions)

Year	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Digital Still Camera	\$ 16,996	\$ 23,264	\$ 28,672	\$ 31,850	\$ 32,954	\$ 26,551
Digital Video Cam Recorder	\$ 7,707	\$ 8,712	\$ 9,468	\$ 9,420	\$ 9,498	\$ 9,376
Digital Versatile Disk Recorder	\$ 1,331	\$ 2,420	\$ 2,497	\$ 2,770	\$ 3,216	\$ 3,854
Digital Camera Phones	\$ 21,949	\$ 38,527	\$ 46,577	\$ 50,463	\$ 49,706	\$ 52,584

Source: IDC

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Possibility Exercises

The following possibility exercises are not meant to be estimates or projections, rather they are presented as a guiding example of possible royalties for the different product categories that Ampex is pursuing in licensing of its patents. The market sizes may change, the percent of manufacturers may change, and the royalty rate may also change. This exercise is presented merely to illustrate the direction for possible royalty revenues in the future, if Ampex continues to be successful in licensing its patents.

Digital (Video) Cam Recorder (camcorders) possibilities. Ampex has recently signed with Sony who accounts for approximately 50% of the market size.

The possibility based on successful licensing of 75% of the market size is as follows:

Ampex is currently receiving running rate royalties from companies who together account for 25% of the market. These licensees currently pay Ampex between \$5.0 and \$6.0 million with a mid-point of \$5.5 million of running rate royalties a year. The Sony agreement also covers camcorders. We assume that one-half of the \$40.0 settlement or \$20.0 million pertains to the camcorder market. After April 2006, Ampex estimates that Sony will pay to Ampex an amount between \$10.0 million to \$15.0 million on an annualized basis with a mid-point of \$12.5 million. Therefore Ampex could possibly be receiving royalty revenues from Sony of \$8.4 million in 2006, \$12.50 million in 2007, and \$12.5 million in 2008 for a total possible royalty revenue of approximately \$33.4 million. Adding the two existing licensees' possible royalty revenue of \$13.9 million in 2006, \$18.0 million in 2007, and \$18.0 million in 2008.

Digital Still Camera possibilities. The three current licensees represent approximately 40% of the total worldwide market. Two of these licensees have prepaid royalties through April 2006, and have taken licenses on patents.

Two licensees have prepaid through April 2006, which coincides with the expiration of the basic digital still camera patent. However the existing license agreements also cover several other patents which are used to enhance data compression and are useful in a variety of digital products such as digital still cameras and camcorders. The patents expire at various dates through 2014. The licensees will be required to pay running rate royalties based on a percentage of sales price of their products if they use these patents after April 2006.

The Eastman Kodak possibility, assuming Eastman Kodak has approximately 20% of the total worldwide market:

We forecast Kodak will settle the digital still camera litigation during 2005 since Sony and Samsung have settled. The 20% market share for Kodak could result in royalties of \$20 million, which is line with both the Canon and Sony estimates for the use of the technology through April 2006. Accordingly, we value the potential royalty revenue stream after April 2006 to be between \$30.0 million and \$40 million with a mid-point of \$35.0 million per year based on the IDC market information and our estimate of 0.3% royalty rates for licensees who will elect to use Ampex's technology

Ampex Corporation

Digital Versatile Disk Recorders possibility. Ampex is in discussions with the manufacturers of Digital Versatile Disc Recorders.

The market for Digital Disk Recorders is in early development and we will not assume future royalty revenues at this time.

Digital Camera Phone possibility. Ampex is initiating discussions with the manufacturers of digital camera phones.

The possibility based on successful licensing of 100% of the market at a reduced royalty rate of 0.1%.

This market will take two years to develop licensees and may include litigation since the camera portion represents a small percentage of the cost of a cellular phone. We estimate that Ampex will receive a lower royalty rate than the licenses on other products and are assuming 0.1% rate that could produce \$50.0 million in royalties in 2007 and \$50.0 million in 2008. The patents run through 2014.

Ampex Corporation

Ampex Financials

Table 4. Ampex Corporation - Consolidated Balance Sheet
(in thousands)

	September 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,451	\$ 14,023
Short-term Investments	9,160	-
Accounts receivable (net of allowances of \$88 in 2004 and \$137 in 2003)	2,892	4,513
Inventories	6,184	6,343
Other current assets	4,052	4,366
Total current assets	\$ 27,739	\$ 29,245
Property, plant and equipment	\$ 4,333	\$ 4,825
Other assets	598	1,127
Total assets	\$ 32,670	\$ 35,197
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	\$ 132	\$ 146
Accounts payable	2,579	1,511
Net liabilities of discontinued operations	807	1,076
Accrued restructuring costs	631	1,300
Other accrued liabilities	11,890	23,956
Total current liabilities	\$ 16,039	\$ 27,989
Long-term debt	\$ 89,560	\$ 74,022
Other liabilities	63,618	63,802
Accrued restructuring costs	1,794	3,450
Net liabilities of discontinued operations	1,354	2,071
Total liabilities	\$ 172,365	\$ 171,334
Common stock, \$.01 par value:		
Class A:		
Authorized: 175,000,000 shares in 2004 and in 2003		
Issued and outstanding - 3,642,517 shares in 2004; 3,728,017 in 2003	\$ 36	\$ 37
Class C:		
Authorized: 50,000,000 shares in 2004 and in 2003		
Issued and outstanding - none in 2004 and in 2003	0	0
Other additional capital	454,468	454,394
Accumulated deficit	(523,581)	(518,578)
Accumulated other comprehensive loss	(70,618)	(71,990)
Total stockholders' deficit	\$ (139,695)	\$ (136,137)
Total liabilities and stockholders' deficit	\$ 32,670	\$ 35,197
Source: Company filings		

Ampex Corporation

Balance Sheet Comparison

- Cash and short-term investments were relatively flat at \$14.6 million at 9/30/04 compared to \$14.0 million at 12/31/03.
- Current assets decreased \$1.5 million to \$27.7 million at 9/30/04 compared to \$29.2 million at 12/31/03, reflecting a \$1.6 million decrease in accounts receivable.
- Current liabilities decreased \$12.0 million to \$16.0 million at 9/30/04 compared to \$28.0 million at 12/31/03, reflecting a \$12.0 million decrease in other accrued liabilities representing pension liabilities.
- Current ratio at 9/30/04 was 1.7:1 compared to 1.04:1 at 12/31/03.
- Total liabilities were up slightly to \$172.4 million at 9/30/04 compared to \$171.3 million at 12/31/03.
- Total stockholders' deficit was \$139.7 million at 9/30/04 compared to \$136.2 million at 12/31/03.

Ampex announced on December 17, 2004, that it had redeemed all of its outstanding 20% Senior Discount Notes due January 2006 with an accreted value of \$10.2 million. Ampex also gave notice to the trustee of its 12% Senior Notes due August 2008 of their intention to redeem \$50.0 million of the Senior Notes at the end of December 2004. After the redemption, Ampex will have approximately \$15.6 million outstanding of the 12% Senior Notes. This \$60.2 million reduction of debt will reduce interest expense by approximately \$8 million annually, or \$2.07 per diluted share.

Ampex Corporation

Table 5. Ampex Corporation
Consolidated Statements of Operations and Comprehensive Income (Loss) and Estimate
for 4th Quarter and 2004
(in thousands except share and per-share data)

(unaudited)	Actual For three months ended September 30, 2003	Actual For three months ended September 30, 2004	Actual For nine months ended September 30, 2003	Actual For nine months ended September 30, 2004	Estimate 3 months Dec. 31, 2004	Estimate Year ended Dec. 31, 2004
Licensing revenue	\$ 1,744	\$ 1,759	\$ 7,702	\$ 4,861	\$ 66,000	\$ 70,861
Product revenue	6,367	4,390	17,950	15,767	4,500	20,267
Service revenue	2,065	2,173	7,049	6,496	2,100	8,596
Total revenue	\$ 10,176	\$ 8,322	\$ 34,704	\$ 29,128	\$ 74,604	\$ 103,732
Intellectual property costs	\$ 205	\$ 1,653	\$ 796	\$ 4,595	\$ 7,500	\$ 12,095
Cost of product sales	3,848	3,069	10,712	9,955	3,500	13,455
Cost of service	747	688	2,375	2,342	750	3,092
Research, development and engineering	696	1,022	2,326	2,853	700	3,553
Selling and administrative	2,848	3,326	9,095	9,160	3,500	12,660
Restructuring charges (credits)	-	(1,410)	-	(1,410)	-	(1,410)
Total costs and operating expenses	\$ 8,344	\$ 8,348	\$ 25,304	\$ 27,495	\$ 15,950	\$ 43,445
Operating income (loss)	\$ 1,832	\$ (26)	\$ 9,400	\$ 1,633	\$ 58,654	\$ 60,287
Interest expense	\$ 2,215	\$ 2,534	\$ 6,716	\$ 7,312	\$ 2,200	\$ 9,512
Amortization of debt financing costs	15	14	43	42	12	54
Interest income	(57)	-	(86)	(88)	(100)	(188)
Other (income) expense, net	2	-	35	(381)	2	(379)
Income (loss) from continuing operations before income taxes and equity in income of limited partnership, including sale of investment	\$ 2,175	\$ 2,548	\$ 6,708	\$ 6,885	\$ 2,114	\$ 8,999
Provision for (benefit of) income taxes	(343)	(2,574)	2,692	(5,252)	56,540	51,288
Equity in income of limited partnership, including sale of investment	(3,981)	-	(3,306)	248	-	248
Net income (loss) from continuing operations	\$ 3,638	\$ (1,588)	\$ 3,995	\$ (5,355)	\$ 54,536	\$ 49,181
Income from discontinued operations (net of taxes of nil in 2004)	-	352	-	352	-	-
Net income (loss)	\$ 3,638	\$ (1,216)	\$ 3,995	\$ (5,003)	\$ 54,536	\$ 49,533
Benefit from extinguishment of mandatorily redeemable preferred stock	974	-	3,041	-	-	-
Preferred dividends ascribed, but not declared	(451)	-	(1,416)	-	-	-
Undistributed net income (loss) applicable to common stockholders	\$ 4,161	\$ (1,216)	\$ 5,620	\$ (5,003)	\$ 54,536	\$ 49,533
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(67)	2	(54)	46	5	-
Comprehensive income (loss)	\$ 4,094	\$ (1,214)	\$ 5,566	\$ (4,957)	\$ 54,541	\$ 49,584
Basic and diluted undistributed income (loss) per share						
Undistributed income (loss) per share from continuing operations	\$ 0.98	\$ (0.43)	\$ 0.80	\$ (1.46)	\$ 14.74	\$ 13.22
Income per share from discontinued operations	-	0.10	-	0.10	-	-
Undistributed income (loss) per share applicable to common stockholders	\$ 1.28	\$ (0.33)	\$ 1.75	\$ (1.36)	\$ 14.74	\$ 13.22
Weighted average number of basic and diluted common shares outstanding	3,260,733	3,642,517	3,207,382	3,667,572	3,700,000	3,750,000

Source: Company filings, J.M. Dutton estimates

Ampex Corporation

Statement of Operations Comparison for the September Quarter

- Total revenue decreased \$1.9 million to \$8.3 million for three months ended 9/30/04 from \$10.2 million for three months ended 9/30/03, reflecting the lower Data Systems product revenue of \$1.9 million from the lower Defense Department ordering awaiting the new products being introduced in 2005.
- Total costs and operating expenses were essentially flat at \$8.3 million for both periods.
- Operating income (loss) was \$(26,000) compared to income of \$1.8 million for the three months ended 9/30/03. The lower product revenue carried through to create this loss.
- Net loss from continuing operations was \$(1.6 million) for three months ended 9/30/04 compared to a profit of \$3.6 million for three months ended 9/30/03. The profit in the third quarter 2003 was affected by a tax benefit of \$3.9 million due to the change in reserve for current and long-term tax liabilities reflecting the decrease in reserves provided on prior years' foreign, federal, and state income taxes for years where the Ampex reached a proposed settlement with tax authorities or where years have been closed to audit.
- Net income (loss) was \$(1.2 million) after income of \$352,000 from net discontinued operations for three months ended 9/30/04 compared to a profit of \$3.6 million for three months ended 9/30/03.
- Undistributed net loss was \$(1.2 million) for three months ended 9/30/04 compared to \$4.2 million profit after benefit from extinguishment of preferred stocks of \$974,000 and a negative \$451,000 for preferred dividends ascribed, but not declared for three months ended 9/30/03.
- Comprehensive loss after a positive \$2,000 foreign currency translation adjustment was \$(1.2 million) for three months ended 9/30/04 compared to a profit of \$4.1 million after a negative \$(67,000) for foreign currency adjustments.
- Basic and diluted distributed income (loss) per share was \$(0.43) for three months ended 9/30/04 compared to a profit of \$0.98 for three months ended 9/30/03. Basic and diluted undistributed (loss) per share applicable to common stockholders for three months ended 9/30/04 was \$(0.33) after \$0.10 income per share from discontinued operations. This compares to an income per share of \$1.28
- Weighted average basic and diluted common shares outstanding for three months ended 9/30/04 increased 11.7% to 3,642,517 from 3,260,733 for three months ended 9/30/03.

Statement of Operations Comparison for Nine Months

- Total revenue decreased \$5.6 million to \$29.1 million for nine months ended 9/30/04 from \$34.7 million for nine months ended 9/30/03 reflecting the lower Data Systems product revenue of \$2.2 million from the lower defense department orders awaiting the new products being introduced in 2005, and lower licensing revenues of \$2.8 million.
- Total costs and operating expenses increased \$2.2 million to \$27.5 million for nine months ended 9/30/04 from \$25.3 million, due mainly to an increase of \$3.8 million in cost of product sales partially offset by a credit for restructuring charges of \$1.4 million for nine months ended 9/30/03.
- Operating income (loss) \$1.6 million for nine months ended 9/30/04 compared to income of \$9.4 million for nine months ended 9/30/03.
- Net loss from continuing operations was \$(5.4 million) for nine months ended 9/30/04 compared to a profit of \$4.0 million for three months ended 9/30/03. The profit in the third quarter 2003 was affected by a tax benefit of \$3.3 million due to the change in reserve for current and long-term tax liabilities reflecting the decrease in reserves provided on prior years' foreign, federal, and state income taxes for years where Ampex reached a proposed settlement with tax authorities or where years have been closed to audit.

Ampex Corporation

- Net income (loss) was \$(5.0 million) after income of \$352,000 from net discontinued operations for three months ended 9/30/04 compared to a profit of \$4.0 million for three months ended 9/30/03.
- Undistributed net loss was \$(5.0 million) for three months ended 9/30/04 compared to income of \$5.6 million after benefit from extinguishment of preferred stocks of \$3.0 million and a negative \$1.4 million for preferred dividends ascribed, but not declared for three months ended 9/30/03.
- Comprehensive loss after a positive \$46,000 foreign currency translation adjustment was \$5.0 million for three months ended 9/30/04 compared to \$5.6 million profit for nine months ended 9/30/03 after benefit from extinguishment of preferred stocks and a negative \$54,000 for foreign currency translation adjustments.
- Basic and diluted undistributed loss per share for nine months ended 9/30/04 was \$(1.36) after \$0.10 income per share from discontinued operations compared to a \$1.75 income per share for nine months ended 9/30/03.
- Weighted average basic and diluted common shares outstanding for nine months ended 9/30/04 increased 14.3% to 3,667,572 from 3,207,382 for nine months ended 9/30/03.

Conclusion and Valuation

We believe the valuation of Ampex should be based on four factors: 1) valuation ascribed to Data Systems, 2) valuation ascribed to licensing of intellectual property, 3) valuation ascribed to the float and the number of shares outstanding, and 4) Ampex's cash and balance sheet position. It should be noted that this valuation exercise only takes into consideration royalties to 2008 although the patents extend to 2014 and we recognize that there could be additional royalty payments after 2008.

1. The valuation ascribed to Data Systems reflects the revenues from product sales and service revenue, which have been relatively flat at approximately \$33.0 million for the years 2001 to 2003. The projected revenue for 2004 also is flat at \$33.0 million, or slightly down to under \$30.0 million, due to the slowness of new orders from the defense customers as Data Systems is introducing new products that are designed to target the product replacement cycle. However, the gross margins for Data Systems have been steadily improving and are expected to be in the 44 to 48% range in 2004 and 2005. With a market cap/revenue ratio of 1.8 to 2.0 times the expected revenues of \$31.5 million in 2005, the valuation would work out to be \$56.7 million to \$63.0 million, with a midpoint valuation of \$59.8 million for Data Systems. The expected gross margins of 48% would yield an operating profit of \$14.4 million to \$15.8 million with a mid-point of \$15.1 million, which would have the \$59.8 million for Data Systems representing 3.9 times Data Systems' expected gross profit for 2005. Based on approximately 3.7 million shares outstanding, the \$59.8 million valuation ascribed to Data Systems works out to be approximately \$16.16 per share.

The valuation ascribed to licensing of intellectual property reflects the recent license agreements with Canon, Sanyo and Sony that resulted in Ampex receiving \$65.0 million in the fourth quarter of 2004. The licenses are both a one-time payment and the beginning of running royalties from July 2004 through March 2006. After 2006, running royalties from the three licensees may continue. Conservatively valuing the gross royalty of \$65.0 million received at 1X could result in a \$65.0 million valuation, or \$17.57 a share based on 3.7 million shares outstanding. The valuation based on future royalty payments is another exercise in possibilities. As detailed in the possibility exercises above, the royalties from manufacturers of 75% of the market including royalties from a successful licensing of Eastman Kodak for digital still cameras could possibly yield royalties through the year 2008, could total \$100.0 million. Valuing the gross possible royalties at 1X could result in a valuation of \$100.0 million, or \$27.03 a share based on 3.7 million shares outstanding. Future possible licenses from other companies for digital video camcorders, and digital camera phones could, as detailed above, possibly yield a possible \$175.6 million through the year 2008. The total of the future possible additional royalties from 2005 through 2008 from these three product categories is \$275.6 million. Conservatively valuing the gross royalties received of \$275.6 million that could possibly be received in the future at 1X could result in a \$275.6 million, or \$74.49 a share based

Ampex Corporation

on 3.7 million shares outstanding. Since this valuation is based on events that may or may not occur in the licensing activity, we are discounting this portion of our valuation by 30% to **\$52.14** per share

Ampex's estimated total valuation ascribed to Data Systems — \$16.16 and intellectual property royalties for fourth quarter — \$17.57 — and future royalty revenues — \$52.14 — is **\$85.87** per share.

2. The valuation ascribed to the balance sheet information reflects that Ampex paid down its debt in the fourth quarter using the \$65.0 million of royalty payments received, resulting in our estimate of pro forma debt of \$15.6 million and a stockholders' equity deficit of approximately \$(75.0 million). Taking the equity deficit into consideration we discount the per-share valuation of **\$85.87** by 30%, or **\$(25.76)**.
3. We add a 20% premium for the valuation ascribed to the number of shares outstanding and to the float of 2.0 million shares that creates a trading situation that could result in a premium of **\$17.17** for the share price on the upside.

Table 6. Valuation Study

	Valuation	Based on 3.7 million shares	
		Sub-Total Per Share	Final Per Share
Data Systems based on 2005 revenues			
Market cap/rev. and gross margins	\$ 59,800,000	\$ 16.16	\$ 16.16
Total Possible Valuation through 2008:			
Intellectual Property - Future:			
Digital Still Cameras			
Fourth Quarter - \$65 Mil. from			
Canon, Sanyo & Sony	\$ 65,000,000	\$ 17.57	\$ 17.57
Future Royalty Revenues through 2008			
of Other Products:			
Digital camcorder	\$ 75,600,000	\$ 20.43	
Digital still cameras	\$ 100,000,000	\$ 27.03	
Digital camera phones	\$ 100,000,000	\$ 27.03	
Other Future Royalties Products, total	\$ 275,600,000	\$ 74.49	
Total Future Royalties			
30% discount for future events	\$ (82,680,000)	\$ (22.35)	
Net Future Discounted Royalties	\$ 192,920,000	\$ 52.14	\$ 52.14
Total Data Systems, fourth quarter royalty			
and discounted future royalty revenue	\$ 317,720,000		\$ 85.87
Less: Balance Sheet 30% discount	\$ (95,316,000)		\$ (25.76)
Plus: 2.0 Mil. Float premium 20%	\$ 63,544,000		\$ 17.17
Estimated Valuation	\$285,948,000		\$ 77.28

Source: JM Dutton analyst

Ampex Corporation

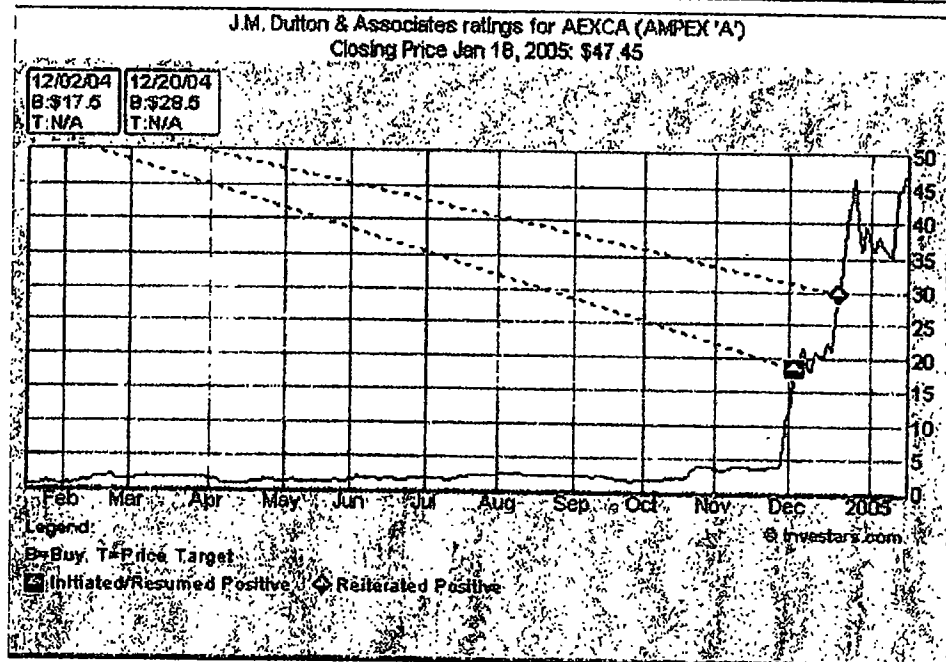
In conclusion, our estimated valuation per share for Ampex is based on the following:

1. Data Systems valuation - \$16.16 per share.
2. Intellectual properties royalty revenues – fourth quarter - \$17.57.
3. Intellectual properties other future royalties valuation - \$74.49 per share.
4. Intellectual properties discounted 30% - \$52.14.
5. Total valuation of Data Systems fourth quarter royalties and discounted intellectual properties before balance sheet discount and float premium - \$85.87.
 - Less:
 - Discount for balance sheet is 30%, or minus \$(25.76) per share.
 - Plus:
 - Premium for limited float affected trading is 20%, or plus \$17.17 per share.

The end result of our thesis is a current per-share valuation target over the next 12 months of \$77.28.

In response to the November 29, 2004, announcement of the license with Sony, we originally issued our Buy rating on December 2, 2004, when Ampex was selling at \$12.45. Since our initial rating the stock moved up to register a new 52-week high of \$50.75 on December 28, 2004. Since then, the stock has backed off on relatively moderate volume to its present level of \$47.45. Based on the more complete valuation provided above, we reiterate our upgrading our rating to **Strong Buy** and establishing a 12-month price target of \$77.28 per share.

Ampex Corporation



J.M. Dutton & Associates Current Ratings Distribution	
Rating	% Total
Strong Buy	17.28
Buy	25.93
Strong Speculative Buy	12.35
Speculative Buy	29.63
Neutral	13.58
Avoid	1.23

Ampex Corporation

Analyst: Richard W. West, CFA

Richard W. West, CFA, has a range of experience extending over 40 years in securities analysis and investment management. Following three years as a broker with Stein Bros. & Boyce, he moved into investment management and research in the early 1970's with Delaware Management and, from 1974 to 1983, with Brittingham, Inc., where his responsibilities included management of the U.S. portfolio of the Nobel Foundation, one of the premier growth portfolios of its time. Mr. West formed an investment management and research firm in the mid-1980's specializing in small-cap growth stock analysis and investment publishing, following which he served as research director with Gaines Berland, an investment firm specializing primarily in growth stocks and special situations. He has been independently engaged since 1998 in corporate finance and private research activities. Mr. West is a graduate of the Wharton School, University of Pennsylvania (1960), served four years (1954-58) as a Navy pilot, and remains active as a pilot and Master Swimmer.

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J.M.Dutton & Associates, LLC

August 12, 2005
 Research Note
 Ampex, Corporation
 AEXCA - \$32.84

AMPEX: NEW CONTRACT WITH BOEING
2nd QUARTER RESULTS: TOTAL REVENUES UP 77%, LICENSING REVENUE UP 586%

BUY RATING REITERATED

Ampex Corporation (Ampex) results for the second quarter ended 6/30/05, compared with the second-quarter 2004:

- Total revenue increased 77.5% to \$15.8 million in the second-quarter 2005, compared with \$8.9 million for the second-quarter 2004.
- Licensing revenue increased 586% to \$9.9 million in the second-quarter 2005, compared with \$1.7 million for the second-quarter 2004. The breakdown of licensing revenue in 2005:
 - 1) \$5.0 million in royalties based on past or current sales under licenses that provide for running royalties based on licensee's revenues from products, including digital still cameras, digital camcorders, and DVD recorders.
 - 2) \$4.9 million in prepayments of royalty obligations through the first quarter of 2006.
- Net income for the second-quarter of 2005 was \$2.5 million or \$0.64 per diluted share for the second quarter of 2005, compared with a loss of \$(4.1 million) or \$(1.15) per diluted share for the second-quarter of 2004.
- Intellectual property costs increased 98% to \$4.2 million for the second-quarter 2005, compared with \$1.8 million for the second-quarter 2004. In the second-quarter 2005, \$3.7 million of the \$4.2 million related to lawsuits Ampex initiated in October 2004, alleging patent infringement against Eastman Kodak (EK: NYSE-\$27.00).
- Licensing activity contributed \$5.6 million, or \$1.45 diluted EPS, in the second-quarter 2005, compared with an operating loss of \$(0.7 million) in the second-quarter 2004, or \$(0.19) diluted EPS.
- Product sales and service revenues from Ampex's Recorder segment were \$5.9 million in the second-quarter 2005, compared with \$7.5 million in the second-quarter 2004.
- Product sales and service operating income was \$25,000, or diluted EPS of \$0.01, in the second-quarter 2005, compared with \$800,000, or \$0.23 per diluted EPS, for the second-quarter 2004. The lower sales and operating income were due to the ongoing transition from an older generation of tape-based image and data acquisition products to a newly introduced range of solid-state and hard disk-based products. In this regard, the The Boeing Company (NYSE:BA - \$65.95) recently awarded the Recorder segment a contract for new disk and solid based data instrumentation recorders that will be used in the development of Boeing's 787 aircraft. This contract has a total value of approximately \$6.3 million to deliver product over the next 30 months.
- Interest expense, net, and other financing costs were \$0.7 million, or diluted EPS of \$0.17, in the second-quarter 2005, compared with \$2.4 million, or \$0.64 per diluted EPS, for the second-quarter 2004. The lower interest expense in FY2005 reflects the \$62.4 million debt repayment in the fourth-quarter 2004 and a further reduction of \$5.6 million in the second-quarter 2005. On May 3, 2005, Ampex called for redemption of \$10.0 million of its 12% senior notes. When completed, this redemption will reduce the principal amount of the 12%

senior notes to \$5.8 million. The total long-term debt at June 30, 2005, was \$19.6 million, down from \$30.3 million at December 31, 2004.

- On April 15, 2005, Ampex sold a vacant manufacturer facility for net proceeds of \$3.1 million; this resulted in a gain in other income of \$0.5 million.

SUMMARY

Ampex's second-quarter results continued to show the potential for adding licensees that will provide running royalties in the future, based on manufacturers revenues from products that infringe Ampex's patents. Ampex continued to license additional manufacturers of digital still cameras in the second quarter. The new licensees are Fuji Photo Film Ltd. (NASDAQ: FJTY - \$31.94); Funai Electric Co., Ltd.; Konica Minolta Holdings, Inc.; and Nikon Corporation.

The recent termination of the action against Eastman Kodak in the International Trade Commission and the focus on expediting the Eastman Kodak lawsuit in the U.S. District Court in Delaware that was automatically stayed during the ITC proceedings, while lengthening the time for resolution, bodes well for possible payment of damages from Eastman Kodak. The continued licensing activity demonstrates that Ampex is successfully defending its patents. The recent announcement of the contract with Boeing is a positive for the Recorder segment, and we expect further announcements of contracts for new disk and solid based data instrumentation recorders. It must be remembered that Ampex's patent portfolio consists of approximately 600 patents covering not only digital still cameras, but also digital camcorders, DVD recorders, and camera cell phones. Ampex again stated in its second-quarter news release that they, *"may seek to enforce its digital imaging patents by instituting additional litigation against manufacturers of digital still cameras, digital video camcorders, DVD recorders or other products if we believe our patents are being infringed by such manufacturers and licensing agreements cannot be concluded on satisfactory terms"*.

After the second-quarter news release yesterday, Ampex's common stock fluttered down \$1.39 to close at \$35.89 per share or 3.8% on less than average volume of 17,500 shares, the weakness continued today and the stock closed down at \$32.52 per share, down 5.74% on heavier volume of 32,000 shares. We will not attempt to explain the vicissitudes of day-to-day trading, however, since this quarter was in line with our estimates and with \$2.16 diluted EPS reported for the six-month period ended June 30, 2005, we reiterate our estimated 2005 EPS of \$3.01 (which does not reflect any resolution of the Eastman Kodak lawsuit). It is our belief that we will see continued license activity as Ampex expands its IP activity into DVD recorders, digital video camcorders, and camera-equipped cellular phones. We are willing to wait out the resolution of the Eastman Kodak lawsuit.

We reiterate our Strong Buy Rating.

Richard W. West, CFA

IN THE UNITED STATES DISTRICT COURT
IN AND FOR THE DISTRICT OF DELAWARE

AMPEX CORPORATION, : CIVIL ACTION
Plaintiff, :
v :
EASTMAN KODAK COMPANY, a New :
ALTEK CORPORATION, and :
CHINON INDUSTRIES INC., :
Defendants. : NO. 04-1373 (KAJ)

Wilmington, Delaware
Wednesday, October 5, 2005 at 4:00 p.m.
TELEPHONE CONFERENCE

BEFORE: HONORABLE KENT A. JORDAN, U.S.D.C.J.

APPEARANCES:

MORRIS NICHOLS ARSHT & TUNNELL
BY: JACK B. BLUMENFELD, ESQ.

and

ROPES & GRAY, LLP
BY: JESSE J. JENNER, ESQ.,
NORMAN H. BEAMER, ESQ.,
GABRIELLE E. HIGGINS, ESQ., and
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Counsel for Plaintiff

Brian P. Gaffigan
Registered Merit Reporter

1 APPEARANCES: (Continued)

2

3 PRICKETT JONES & ELLIOTT, P.A.
4 BY: DAVID E. BRAND, ESQ.

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and

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7 WILMER CUTLER PICKERING HALE and DORR, LLP
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9 S. CALVIN WALDEN, ESQ.
10 (New York, New York)

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and

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13 WILMER CUTLER PICKERING HALE and DORR, LLP
14 BY: MICHAEL J. SUMMERSGILL, ESQ.
15 (Boston, Massachusetts)

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Counsel for Defendants

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P R O C E E D I N G S

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21 (REPORTER'S NOTE: The following telephone
22 conference was held in chambers, beginning at 4:00 p.m.)

23

24 THE COURT: Hi, this is Judge Jordan. Who do I
25 have on the line?

26

27 MR. BLUMENFELD: Good afternoon, Your Honor.
28 It's Jack Blumenfeld for Ampex; and I've got Jessie Jenner,
29 Norm Beamer, Gabrielle Higgins and Sasha Rao, all from Robes
30 & Gray. And I believe Mr. Beamer will be speaking for
31 Ampex.

32

THE COURT: Okay.

33

MR. BRAND: Good afternoon, Your Honor. David

1 MR. BEAMER: They're nominally a defendant but I
2 would say that they don't really exist anymore. They're a
3 division of Kodak.

4 THE COURT: All right.

5 MR. BEAMER: So there is a disagreement over
6 whether there is an asymmetry between plaintiff and
7 defendants and there is also a disagreement over the total
8 number of hours over nonparties. We think that 75 hours
9 should be plenty and the defendants want twice that.

10 THE COURT: All right. Who is speaking on
11 behalf of the defendants?

12 MR. SUMMERGILL: Your Honor, this is Michael
13 Summersgill on behalf of Kodak and Altek.

14 We agree with Mr. Beamer that there are two
15 distinct issues here. One is the number of depositions of
16 employees and former employees of parties. The second issue
17 is the number of depositions of nonparties and third
18 parties.

19 As to the first issue, Ampex has proposed
20 75 hours or approximately 10 depositions for itself and
21 75 hours and approximately 10 depositions for both Kodak and
22 Altek which would amount to 37 hours or roughly half the
23 number of depositions for Kodak individually and for Altek
24 individually. And just to be clear, Chinon, the third
25 defendant that Mr. Beamer mentioned, has been subsumed into

1 Kodak but Kodak and Altek are two separate independent
2 parties and with the interest in taking separate discovery.

3 THE COURT: Why? You need to tell me why,
4 Mr. Summersgill. What is it? What question does Altek
5 think it needs to ask of somebody that wouldn't come out in
6 the course of the same deposition being taken by somebody
7 from Kodak?

8 MR. SUMMERSGILL: Well, for instance, there are
9 certain cameras manufactured by Altek and certain cameras
10 manufactured by Kodak.

11 THE COURT: Well aren't those questions that the
12 plaintiff would be asking you so it would be coming out of
13 their time, not yours questioning the plaintiff?

14 MR. SUMMERSGILL: Well, there are different
15 issues as to different cameras.

16 THE COURT: I'm still a little at sea. I can
17 understand how that might be distressing to the plaintiff
18 since they're the ones who will have to be making inquiry of
19 Altek and Kodak. I'm not sure how that puts a burden on
20 Kodak and Altek in figuring out the number of hours I need
21 to go after the plaintiff's side. That is what I need you
22 to help me with.

23 MR. SUMMERSGILL: Well, I guess because some
24 of the issues, vis-a-vis the Kodak cameras, will be not
25 necessarily in line with the issues with the Altek cameras.

1 Altek may want to pursue certain depositions that Kodak
2 doesn't think are necessary. In other words, the
3 noninfringement positions are not necessarily the same,
4 exactly the same for both parties. Altek may want to pursue
5 some depositions that Kodak does not want to pursue and
6 Kodak may want to pursue some that Altek does not
7 necessarily want to pursue.

8 If the issue is -- well, and let me maybe give
9 another specific example. The issue of willfulness that
10 the plaintiff has raised does not apply equally to both
11 parties. They are different time periods that would be at
12 issue.

13 THE COURT: All right. Well, I know everybody
14 is putting their positions forward in their best faith as
15 best they can but I'm unpersuaded that there is a need here
16 to treat each side differently. So you will get the same
17 number of hours a piece. To the extent that the differences
18 you've mentioned have an impact, they seem to impact more
19 heavily on the plaintiff than on you folks on the defense
20 side.

21 So why don't we talk for just a minute about the
22 number of hours. Recognizing that everybody is going to get
23 the same number, what is it in the case that makes you think
24 you need -- and I take it both sides agree that 75 hours is
25 a logical number for employees and ex-employees, but while

IN THE UNITED STATES DISTRICT COURT
IN AND FOR THE DISTRICT OF DELAWARE

AMPEX CORPORATION, : CIVIL ACTION
Plaintiff, :
v :
EASTMAN KODAK COMPANY, :
ALTEK CORPORATION, and :
CHINON INDUSTRIES, INC., :
Defendants. : NO. 04-1373 (KAJ)

Wilmington, Delaware
Tuesday, February 28, 2006 at 4:00 p.m.
TELEPHONE CONFERENCE

BEFORE: HONORABLE **KENT A. JORDAN**, U.S.D.C.J.

APPEARANCES:

MORRIS NICHOLS ARSHT & TUNNELL
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and

ROPES & GRAY, LLP
BY: NORMAN H. BEAMER, ESQ.
GABRIELLE E. HIGGINS, ESQ., and.
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1 APPEARANCES: (Continued)

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P R O C E E D I N G S

19

(REPORTER'S NOTE: The following telephone

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conference was held in open court, beginning at 4:00 p.m.)

21

THE COURT: Hi, this is Judge Jordan. Who do I

22

have on the line?

23

MS. HEANEY: Your Honor, this is Julie Heaney

24

from Morris Nichols. From Ropes & Gray, we have Norm

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Beamer, James Hopenfeld, David Brightman and Gabrielle

26

Higgins.

27

MR. LUKOFF: And, Your Honor, Paul Lukoff for

28

the defendants. And I have on the line with me from

1 sort of custom and practice in this court.

2 MR. BEAMER: Your Honor, if I may. James
3 Hopenfeld just got done with a deposition today on this
4 very point and today is the very last day of discovery
5 and they're still blocking any attempt to inquire into
6 willfulness facts. So I think it's too late for them to
7 come back and reopen that issue.

8 THE COURT: Well, and I'm disagreeing with you,
9 Mr. Beamer. I'm not going to take the position, their
10 having filed the matter and our addressing it for the first
11 time in this call, I'm not going to say, particularly in
12 light of the fact that for both parties' interest, this door
13 has been kicked open a little bit for later discovery, that
14 I'm not going to consider it or that they're going to be
15 foreclosed. So that is the end of a topic. Let's get the
16 briefing done. I'll consider it.

17 MR. HOPENFELD: Your Honor, this is James
18 Hopenfeld. I have just one question.

19 We would be happy to provide you with an
20 opposition brief to the motion on willfulness. There is a
21 comment made by Mr. Summersgill that I don't know if you
22 want us to address in the briefs which is a contingency
23 which is not mentioned in the Ampex briefs, which is what
24 happens if the motion is denied? Just for the record,
25 Ampex would oppose Kodak's reliance on any of opinions of

1 counsel that have not already been produced which are zero
2 because the discovery period has already closed.

3 THE COURT: Yes, I think Mr. Beamer made that
4 abundantly clear, Mr. Hopenfeld. And I think I have also
5 given you a pretty clear ruling on that. That is, you make
6 whatever record you want on that. I'm not foreclosing you
7 from lodging your objection but I don't know how to be any
8 more clear than this. If I decide I'm not bifurcating and
9 I'm able to decide that in a time frame that I think gives
10 the parties a chance to do appropriate additional discovery,
11 I'm going to let you do it and I'll let them rely on advice
12 of counsel. So that's that.

13 If you think you need to do something else to
14 make your objection of record, by all means you are free
15 to do that. I'm not trying to cut off your right or
16 opportunity to make your record if this is a point you
17 think you want to have in your hip pocket for appeal.

18 MR. HOPENFELD: Okay.

19 THE COURT: All right. Turning to relevance of
20 other patents. What is the issue there?

21 MR. SUMMERSGILL: Your Honor, in the context
22 of the last discovery hearing, that came up as to whether
23 discovery should be permitted as to issues relating to those
24 two Kodak patents. The parties disputed the relevance of
25 those patents to the litigation but we agreed to go ahead

CERTIFICATE OF SERVICE

I hereby certify that on March 15, 2006, I electronically filed **APPENDIX TO DEFENDANTS' REPLY BRIEF IN FURTHER SUPPORT OF THEIR MOTION TO BIFURCATE AND MOTION FOR PROTECTIVE ORDER** with the Clerk of the Court using CM/ECF which will send notification of such filing to the following:

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I hereby certify that on March 15, 2006, I have forwarded the above-noted document to the following as noted below:

VIA E-MAIL

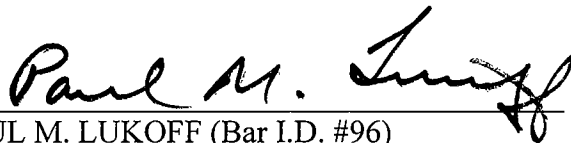
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